

\$16,000,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY
CHARTER SCHOOL REVENUE BONDS
(LARCHMONT CHARTER SCHOOL PROJECT)
EXECUTIVE SUMMARY
RESOLUTION 18-10

| | |
|--|---|
| Borrower: | Larchmont LFP LLC (the “Borrower”) |
| Project User: | Larchmont Schools for its Fairfax Campus, Hollygrove Campus, La Fayette Park Campus and Selma Campus |
| Loan Amount: | Not to exceed \$16,000,000 |
| Expected Issuance: | August 2018 |
| Project: | The proceeds of the Bonds will be used to purchase certain property currently leased by the Borrower from Jamison Properties, Inc. for Larchmont’s La Fayette Park Campus, to pay off existing tenant improvement loans and to finance certain improvements to the La Fayette Park campus and Larchmont’s other campuses. |
| Debt Type: | Charter School Revenue Bonds |
| Project Location: | See “Project Information” section |
| Counties Served: | Los Angeles |
| District in which Project is Located: | Los Angeles Unified School District |
| Charter Authorizer: | Los Angeles Unified School District |
| Est. Annual Payment: | \$800,000 |
| Anticipated Rating: | N/A |
| Structure: | Up to \$15,200,000 Tax-Exempt; Up to \$800,000 Taxable |
| Sale Method: | Public Offering |
| Underwriter: | Stifel, Nicolaus & Company, Incorporated |
| Bond Counsel: | Kutak Rock LLP |
| Trustee: | Wilmington Trust, National Association |

*Not-to-exceed Amount

I. Use of Bond Proceeds / Project Information

The proceeds of the Bonds will be used to: (a) finance the \$7.8M buyout of its existing lease with Jamison Properties, Inc. for its La Fayette Park Campus; (b) pay off certain existing tenant improvement loans totaling approximately \$1.2M related to the La Fayette Park Campus; (c) finance certain improvements to the La Fayette Park Campus; and (d) finance improvements at Larchmont's various campuses. To avoid a \$100,000 increase in the purchase price of the La Fayette Park Campus, the purchase must be completed by September 1, 2018. The La Fayette Park Campus consists of an approximately 35,000 square foot building located at 2801 West 6th Street, Los Angeles, California. For the 2017-18 School year, the La Fayette Park Campus housed 675 students in grades 7-12.

| Site | Landlord | Location |
|--------------------------------------|--------------|---|
| High Tech High Mesa | HTH Learning | 5331 Mt. Alifan Drive, San Diego (Clairemont 92111) |
| Total Estimated Project Costs | | |

II. Larchmont Schools

Formed in 2004, Larchmont Schools ("Larchmont") serves approximately 1,400 students in grades TK-12 at four campuses in Los Angeles. According to information provided by the borrower, Larchmont's mission is "to provide a socio-economically, culturally and racially diverse community of students with an exceptional public education. We foster creativity and academic excellence; our students learn with and from each other in an experience-centered, inquiry-based learning environment. With participation from our entire community, we strive to instill in each student a dedication to improving the world we inhabit."

Larchmont is a constructivist school. Constructivism is a theory of learning which holds that each of us has a unique schema of the world based on our living experience, and that by interacting with our environment we make connections to what we already know and construct new meaning. This is done through small class size, looping, longer periods of instruction, and a focus on social emotional development and community for students in TK-12. The student body at the La Fayette Park campus is approximately 34% Latino, 24% White, 28% Asian, 5% African American and 8% other.

Larchmont is currently forming an LLC to act as Borrower for the 2018 Bonds proceeds. The sole member of the Borrower LLC initially will be Larchmont or LCS Support Corporation ("LCS Support"). LCS Support was formed on May 10, 2018, to act as a supporting organization to Larchmont. LCS Support has not yet received a federal tax-exemption letter. LCS Support will not serve as the initial sole member of the Borrower or as a subsequent sole member of the Borrower unless LCS Support receives a federal tax-exemption letter.

III. Financial Structure

The Bonds are expected to be issued in two series that will be issued in the approximate aggregate principal amount of \$13,510,000. The Bonds will be amortized over 37 years with a fixed interest rate and a final maturity date of June 1, 2055.

IV. Security and Source of Payment

The Bonds will be payable from and secured by Payments under the Indenture, consisting primarily of Loan Repayments under the Loan Agreement. The obligations of the Borrower under

the Loan Agreement are payable from and secured by the Gross Revenues of the Borrower and by the Deeds of Trust on the La Fayette Park Campus. As further security for the Bonds, in connection with the issuance of the Bonds, the Borrower will provide instructions to the State Controller's Office to make an apportionment to the Trustee in amounts and on dates provided in a written notice sufficient to repay the Bonds and pay necessary and incidental costs. Funds received by the Trustee pursuant to the Intercept described in clause (i) of the definition of Payments will be held in trust and will be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture, including if necessary, the payment of debt service on the Bonds. Under state law, no party, including the Borrower or any of its creditors will have any claim to the money apportioned or to be apportioned to the Trustee by the State Controller pursuant to the Intercept.

V. Preliminary Sources and Uses/Costs of Issuance

Below are the preliminary estimated sources and uses, and detailed information about the expected costs of issuance for board consideration. Please note that these figures are subject to change between board approval and final pricing.

Estimated Sources & Uses

| Sources | 2018A | 2018B | Total |
|----------------------|----------------------|-------------------|----------------------|
| | Tax-Exempt | Taxable | |
| Bond Size | \$ 13,155,000 | \$ 355,000 | \$ 13,510,000 |
| Total Sources | \$ 13,155,000 | \$ 355,000 | \$ 13,510,000 |

| Uses | 2018A | 2018B | Total |
|--|----------------------|-------------------|----------------------|
| | Tax-Exempt | Taxable | |
| Purchase Price (Jamison Prop) | \$ 7,800,000 | \$ - | \$ 7,800,000 |
| Repayment of TI Loan (Pacific Western) | 1,030,000 | - | 1,030,000 |
| Add'l Improvements (Various Campuses) | 3,000,000 | - | 3,000,000 |
| Repayment Loan (Jamison Properties) | 150,000 | - | 150,000 |
| Add'l Improvements (Jamison) | 125,000 | - | 125,000 |
| Debt Service Reserve Fund | 791,588 | 21,362 | 812,950 |
| Cost of Issuance | 126,217 | 161,085 | 287,302 |
| Underwriter's Discount* | 118,704 | 151,496 | 270,200 |
| Contingency | 13,491 | 21,057 | 34,549 |
| Total Uses | \$ 13,155,000 | \$ 355,000 | \$ 13,510,000 |

* The underwriter's discount is 2% of the par amount of bonds issued.

Estimated Costs of Issuance

| Cost of Issuance | Budgeted Amount |
|---|------------------------|
| Underwriter's Discount | \$ 270,200 |
| Bond Counsel | \$ 75,000 |
| Borrower's Counsel | \$ 70,000 |
| Underwriter's & Disclosure Counsel | \$ 60,000 |
| CSFA Issuance Fee | \$ 16,755 |
| CSFA Application | \$ 1,500 |
| CSFA Issuer Fee - 1st Admin Fee | \$ 2,027 |
| CSFA Issuer Fee - PFD Fee | \$ 6,000 |
| Issuer's Counsel (AG) | \$ 8,000 |
| Bond Trustee - Acceptance | \$ 2,500 |
| Bond Trustee - 1st Admin Fee | \$ 3,500 |
| Master Trustee - 1st Admin Fee | \$ 1,500 |
| Trustee's Counsel | \$ 1,000 |
| Title Insurance | \$ 27,020 |
| Appraisal | \$ 7,500 |
| Printer & Roadshow (AVIA) | \$ 5,000 |
| Contingency | \$ 34,549 |
| Total | \$ 592,050 |

VI. Borrower Financial Data

Pursuant to Section 17183.5 of the CSFA Act, financing through the Authority is to be provided only to projects demonstrated by the participating party to be financially feasible. In demonstration of feasibility, the participating party may take into account all of its funds, and may base future projections upon historical experience or reasonable expectations, or a combination thereof. Nothing in Section 17183.5 shall be construed to imply that any project is required to produce revenue in order to be financed under this chapter. Pursuant to this provision, Exhibit A contains financial and operational information for Larchmont Schools.

VII. Due Diligence Undertaken to Date

No information was disclosed to question the financial viability or legal integrity of the Borrower. Standard opinions of counsel (i.e., that the borrowing entity and/or its sole member has been duly organized, is in good standing, is a 501(c)(3) organization, has the full authority to enter into all documents which are valid and binding, etc.) will be delivered at closing.

VIII. Sales Restrictions

Per Bond Issuance Guidelines adopted by the CSFA board, and given that the bonds will be unrated, the following sales restrictions will apply to the Larchmont Schools financing: <http://treasurer.ca.gov/csfa/financings/guidelines.pdf>.

1. Bonds will be in minimum denominations of \$100,000;
2. Bonds will be privately placed or publicly offered initially to QIBs and AIs;
3. Initial bond purchasers will be required to execute an Investor Letter;
4. Subsequent transfers of bonds will be limited to QIBs and AIs;

5. Sales restrictions will be conspicuously noted on bond and described in detail in offering materials, if any, as well as in the bond documents;
6. One or more of the following will be required depending on the transaction, as requested by the financing team and approved by the Authority:
 - a. Traveling Investor Letter; or
 - b. Higher minimum denominations of \$250,000; or
 - c. Physical Delivery; or
 - d. Limited initial sale to QIBs, with subsequent transfers limited to QIBs as well; or
 - e. Other investor protection measures
7. Bond payments will be made via the intercept mechanism outlined in Section 17199.4 of the Education Code

IX. Staff Recommendation

Staff recommends CSFA approve Resolution Number 18-10 Authorizing the Issuance of Charter School Revenue Bonds in an Amount Not to Exceed \$16,000,000 to Finance and/or Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and/or Equipping of Educational Facilities Located in Los Angeles County, California for use by Larchmont Schools and Larchmont LFP LLC

Exhibit A – 5 Year Financial Projections, Enrollment and Coverage Ratios

| | Projected 2017-18 | Projected 2018-19 | Projected 2019-20 | Projected 2020-21 | Projected 2021-22 | Projected 2022-23 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| ENROLLMENT | | | | | | |
| La Fayette Park Campus (Grades 7-12) | 632 | 657 | 657 | 657 | 657 | 657 |
| Other LCS Campuses (Grades TK-6) | 841 | 824 | 823 | 823 | 823 | 823 |
| Total | 1,461 | 1,481 | 1,480 | 1,480 | 1,480 | 1,480 |
| REVENUE | | | | | | |
| LCFF State Revenue* | \$ 11,745,153 | \$ 12,613,100 | \$ 12,960,962 | \$ 13,323,869 | \$ 13,746,236 | \$ 14,175,118 |
| Federal Revenue | 788,993 | 790,436 | 792,724 | 808,578 | 824,750 | 841,245 |
| State Revenue | 2,610,044 | 2,804,793 | 2,394,866 | 2,442,764 | 2,491,619 | 2,541,451 |
| Local Revenue | 2,379,441 | 2,156,751 | 2,156,699 | 2,199,833 | 2,243,830 | 2,288,707 |
| Total Prior Adjustments | 57,302 | - | - | - | - | - |
| Total Revenues | \$ 17,580,934 | \$ 18,365,080 | \$ 18,305,252 | \$ 18,775,045 | \$ 19,306,435 | \$ 19,846,521 |
| EXPENSES | | | | | | |
| Certified Salaries | \$ 6,871,317 | \$ 6,987,362 | \$ 7,127,110 | \$ 7,269,652 | \$ 7,415,045 | \$ 7,563,346 |
| Classified Salaries | 2,770,432 | 2,846,433 | 2,903,362 | 2,961,429 | 3,020,658 | 3,081,071 |
| Employee Benefits | 2,496,219 | 2,654,101 | 2,916,198 | 2,974,522 | 3,034,012 | 3,094,693 |
| Supplies | 796,908 | 989,545 | 990,291 | 1,010,097 | 1,030,299 | 1,050,905 |
| Operating Services | 1,330,012 | 1,337,581 | 1,329,138 | 1,355,720 | 1,382,835 | 1,410,492 |
| Depreciation/Amortization | 201,668 | 221,748 | 212,717 | 216,972 | 221,311 | 225,737 |
| Other Outgoing | 405,252 | 391,031 | 386,613 | 394,345 | 402,232 | 410,277 |
| Existing LFP Campus Lease Rent | 524,181 | 539,907 | 556,104 | 572,787 | 589,970 | 607,670 |
| Other Campus Rent | 1,637,911 | 1,666,373 | 1,671,406 | 1,704,834 | 1,738,930 | 1,773,709 |
| Total Expenses | \$ 17,033,900 | \$ 17,634,082 | \$ 18,092,938 | \$ 18,460,358 | \$ 18,835,293 | \$ 19,217,898 |
| Net Operating Income | \$ 547,034 | \$ 730,998 | \$ 212,314 | \$ 314,687 | \$ 471,142 | \$ 628,623 |
| | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
| Net Operating Income | \$ 547,034 | \$ 730,998 | \$ 212,314 | \$ 314,687 | \$ 471,142 | \$ 628,623 |
| Add Back: Depreciation/Amortization | 201,668 | 221,748 | 212,717 | 216,972 | 221,311 | 225,737 |
| Add Back: LFP Campus Lease Rent | 524,181 | 539,907 | 556,104 | 572,787 | 589,970 | 607,670 |
| (A) Net Operating School Revenue | \$ 1,272,883 | \$ 1,492,653 | \$ 981,135 | \$ 1,104,446 | \$ 1,282,424 | \$ 1,462,030 |
| (B) Base Rent** | \$ - | \$ 812,275 | \$ 799,850 | \$ 812,950 | \$ 809,750 | \$ 807,000 |
| (A/B) Lease Rent Coverage Ratio | N/A | 1.84x | 1.23x | 1.36x | 1.58x | 1.81x |
| Projected Cash Position & Days Cash on Hand | | | | | | |
| | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
| Beginning Balance | \$ 1,905,833 | \$ 1,881,682 | \$ 2,236,657 | \$ 2,257,162 | \$ 2,564,916 | \$ 3,053,849 |
| Plus: Net Income | 547,034 | 730,998 | 212,314 | 314,687 | 471,142 | 628,623 |
| Plus: Net Decrease in Rent | - | (256,109) | (227,487) | (223,904) | (203,521) | (183,071) |
| Plus: Depreciation | 201,668 | 221,748 | 212,717 | 216,972 | 221,311 | 225,737 |
| Plus: Accounting Changes | (772,853) | (341,662) | (177,040) | - | - | - |
| (C) Ending Cash Balance | \$ 1,881,682 | \$ 2,236,657 | \$ 2,257,162 | \$ 2,564,916 | \$ 3,053,849 | \$ 3,725,138 |
| Total Expenses | \$ 17,033,900 | \$ 17,634,082 | \$ 18,092,938 | \$ 18,460,358 | \$ 18,835,293 | \$ 19,217,898 |
| Less: (Depreciation & Amortization) | (201,668) | (221,748) | (212,717) | (216,972) | (221,311) | (225,737) |
| Less: (Existing LFP Campus Lease Rent) | (524,181) | (539,907) | (556,104) | (572,787) | (589,970) | (607,670) |
| Add: Maximum Annual Base Rent | 524,181 | 796,691 | 796,691 | 796,691 | 796,691 | 796,691 |
| (D) Operating Expenses | \$ 16,308,051 | \$ 17,669,118 | \$ 18,120,808 | \$ 18,467,290 | \$ 18,820,702 | \$ 19,181,182 |
| (365*C/D) Days Cash on Hand | 42 days | 46 days | 45 days | 51 days | 59 days | 71 days |

*Increase based off the FCMAT COLA yearly increase (2021-23 2.80%, 3.17% & 3.12%)

**Base Rent equal to principal and interest from the 2018 Bonds.